

**ABAG
FINANCE AUTHORITY
FOR NONPROFIT CORPORATIONS
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
ABAG Finance Authority for Nonprofit Corporations
Oakland, California

We have audited the basic financial statements of each major fund of the ABAG Finance Authority for Nonprofit Corporations (the "Authority") for the year ended June 30, 2008. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly in all material respects the financial position of the Authority at June 30, 2008, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

Management's Discussion and Analysis is supplementary information required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Maze & Associates

December 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The ABAG Finance Authority for Nonprofit Corporations (Authority) has issued its financial reports for the fiscal year ended June 30, 2008 based on the provisions of Government Accounting Standards Board Statement 34, "Basic Financial Statement and Management's Discussion & Analysis—for State and Local Governments," (GASB 34). One of the most significant requirements of GASB 34 is for government entities to prepare financial reports using the full accrual basis of accounting. Since the Authority has already been using this method of accounting, changes in its financial reports are primarily in format of presentation.

GASB 34 requires the Authority to provide an overview of financial activities in the fiscal year. Such overview herein should be read in conjunction with the accompanying financial statements.

BASIC FINANCIAL STATEMENTS

The Basic Financial Statements required under GASB 34 include:

- (1) Statement of Net Assets—provides information about the financial position of the Authority, including assets, liabilities and net assets. Net assets are presented as the difference between total assets and total liabilities.
- (2) Statement of Activities—presents revenues, expenses and changes in net assets for the fiscal year. GASB 34 requires that revenues and expenses directly attributable to operating programs are presented separately from investment income and financing costs.
- (3) Statement of Cash Flows—provides itemized categories of cash flows. GASB 34 requires itemized categories of cash in flows and out flows instead of computing the net cash flows from operation by backing out non-cash revenues and expenses from net operating income as in the previous traditional format. In addition, cash flows related to investments and financing activities are presented separately.

The Basic Financial Statements above provide information about the financial activities of the Authority's two programs, Financing Program and Homeownership Lease Purchase Program, in separate columns. As described in Note 1, the Homeownership Lease Purchase Program is tracked by two separate funds, Home Operation and Home Administration.

FISCAL YEAR 2008 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- At June 30, 2008, the Authority's total assets were \$54.9 million of which \$48.2 million were attributable to the Homeownership Lease Purchase Program. At June 30, 2007, total assets were \$56.8 million.
- The Authority's total revenues, including program and general revenues, were \$6.4 million in FY 2008, while total expenses were \$5.9 million.

Homeownership Lease Purchase Program

In March 2003, the Authority issued variable rate Pass Through Obligations in the amount of \$53.8 million to finance the Homeownership Lease Purchase Program. This program is designed to assist California residents who otherwise could not qualify for homeownership financing from other lenders. As of June 30, 2008, 35 homes were purchased under this program. The purchase phase of the Homeownership Lease Purchase Program ended in October 2005, i.e., no more homes were acquired after that date. During FY 2008, the titles of two homes were transferred to their respective lessees who exercised purchase option as allowed under the program. As of June 30, 2008, twelve homes were still on hand. A detailed description of the program is presented in Note 4 and Note 5.

Following program plan, the outstanding balance of the Pass Through Obligation will be paid off by the Forward Purchaser, and all assets in the Home Operation Fund transferred to its trustee on July 1, 2008. Also on this date, the balances in Home Purchased, at Cost and Purchase Mortgage Liabilities will be eliminated. As described in Note 4, the Authority holds neither financial interest in these homes nor responsibility in paying these liabilities. The small amount of assets remaining in the Home Administration Fund after July 1, 2008 will be used to pay for miscellaneous administrative expenses relating to the closing of this program.

OUTLOOK FOR FY 2009

The Authority will continue to provide efficient and economical financing for affordable multi-family housing, independent schools, hospitals, healthcare providers through its various programs specially designed for local government jurisdictions and other borrowers in the municipal capital market.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the Authority's finances. Questions about this Report should be directed to the ABAG Finance Department, at 101 Eighth Street, Oakland, California 94607.

ABAG
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	Financing Program	Home Operation (Note 4)	Home Administration (Note 4)	Totals
PROGRAM OPERATING REVENUES				
Financial Service Fees	\$1,609,308		\$16,779	\$1,626,087
Lease Program Fees			19,576	19,576
Lease Program Interest		\$1,112,820		1,112,820
Total Program Operating Revenues	1,609,308	1,112,820	36,355	2,758,483
PROGRAM OPERATING EXPENSES				
Home Closing Costs		78,306		78,306
Consultant Services	1,147,371		20,333	1,167,704
Program Interest Expense		3,532,691	10	3,532,701
Trustee Fee		1,472		1,472
Forward Purchaser Fees		803,699		803,699
Debt Issuance Cost Amortization (Note 4B)		282,548		282,548
Miscellaneous	21,115			21,115
Total Program Operating Expenses	1,168,486	4,698,716	20,343	5,887,545
Program Operating Income (Loss)	440,822	(3,585,896)	16,012	(3,129,062)
GENERAL REVENUES				
Interest Income	94,764	17,839	2,835	115,438
Forward Purchaser current year operating loss reimbursement accrual (Note 4C)		3,568,057		3,568,057
Total General Revenues	94,764	3,585,896	2,835	3,683,495
Change in Net Assets	535,586		18,847	554,433
Beginning Net Assets (Deficit)	2,191,189		(4,635)	2,186,554
Ending Net Assets	\$2,726,775		\$14,212	\$2,740,987

See accompanying notes to basic financial statements

**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2008

NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

A. Description

Description of Reporting Entity -- The ABAG Finance Authority for Nonprofit Corporations (Authority) is a joint powers authority comprising California municipalities. The Authority is governed by a board appointed by its members.

The Authority assists eligible non-profit entities and other borrowers in obtaining tax-exempt financing. Eligible entities include non-profit corporations exempt from taxation under Internal Revenue Code 501(c)(3) and other qualified borrowers financing projects in the public interest. The Authority acts as a conduit for eligible entities, which issue debt that is pooled by the Authority; payments by these borrowers are used to repay the debt. As a conduit, the Authority is not liable for the repayment of debt in the event of a default by a borrower.

The Association of Bay Area Governments (ABAG) assists the Authority in enabling non-profit corporations and other borrowers serving the public interest to issue tax-exempt debt; it also provides administrative, accounting and clerical support. The Authority paid ABAG \$1,257,804 for these services in the fiscal year ended June 30, 2008.

Any California County or City can be a member of the Authority. However, since not all ABAG members are members of the Authority, it is not a component unit of ABAG and its financial results and results of operations are not blended with those reported by ABAG.

Reporting Entity -- The accompanying basic financial statements present the financial activity of the Authority, which is the primary entity presented, along with the financial activities of its component unit, the California Regional Mortgage Assistance Corporation (Cal-MAC), for which the Authority is financially accountable. Although Cal-MAC is a separate legal entity, *blended* component units are in substance part of the Authority's operations and are reported as an integral part of the Authority's financial statements.

Cal-MAC is a nonprofit public-benefit corporation organized under the laws of the State of California. Its board of directors consists of the members of the Executive Committee of the Board of the Authority. Cal-MAC was established to facilitate the Homeownership Lease Purchase Program operated by the Authority and described in Note 4.

Programs -- The accompanying basic financial statements of the Authority consist of reports for three Major Funds—Financing Program, Home Operation, and Home Administration. Financing Program presents all conduit financing activities of the Authority other than the Homeownership Lease Purchase Program described in Note 4. The Home Operation Fund presents the Pass-Through Obligations and their proceeds, as well as investment revenues and financial expenses of the Homeownership Lease Purchase program. The Home Administration Fund presents the marketing and administrative activities of the Homeownership Lease Purchase Program, including revenues and expenses resulting from the purchase of homes. Effective July 1, 2003, the purchase cost of homes and related purchase mortgage obligations are also accounted for in this Fund.

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

NOTE 1 - DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Homeownership Lease Purchase Program revenues are recognized as escrows are closed on each home. Deferred service fee revenues in the Program are recognized ratability over the sixty-nine-month life of the program.

E. Refundable Deposits

The California Debt Limit Allocation Committee (CDLAC) establishes procedures to be followed for multifamily housing projects in the State of California financed with tax-exempt private activity revenue bonds.

F. Unamortized Issuance Costs and Service Fee Revenues

The costs of issuing the long-term debt to fund the Authority's Homeownership Lease Purchase Program, comprising underwriter's fees, legal and other costs, and the Authority's service fees, were paid immediately out of the proceeds of the debt issue. However, since these costs are of benefit for the duration of the debt issue, they are capitalized and amortized on a straight-line basis as an operating cost or revenue over the sixty-four month term of the debt issue.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2008:

	Cash and Cash Equivalents	Guaranteed Investment Agreement	Investments Held by Trustee	Fair Value
Cash in Banks	\$117,251			\$117,251
Local Agency Investment Fund	1,596,825			1,596,825
Guaranteed Investment Agreements		\$40,383,799		40,383,799
Investment Trust of California	773,106			773,106
Money Market Fund	4,127			4,127
Federal Home Loan Mortgage Corporation			\$2,112,225	2,112,225
Total Cash and Investments	<u>\$2,491,309</u>	<u>\$40,383,799</u>	<u>\$2,112,225</u>	<u>\$44,987,333</u>

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

NOTE 2 – CASH AND INVESTMENTS (Continued)

	12 Months or less	25 to 60 Months	More than 60 Months	Total
Investments with Original 3 Months or Greater:				
U.S. Agency Obligations				
Federal Home Loan			\$2,112,225	\$2,112,225
Investment Trust of California	\$773,106			773,106
Guaranteed Investment		\$40,383,799		40,383,799
Money Market Fund	4,127			4,127
Subtotal Investments	<u>777,233</u>	<u>40,383,799</u>	<u>2,112,225</u>	<u>43,273,257</u>
Cash and Cash Equivalents:				
Cash in Banks	117,251			117,251
Local Agency Investment Fund	<u>1,596,825</u>			<u>1,596,825</u>
Total Cash and Investments	<u>\$2,491,309</u>	<u>\$40,383,799</u>	<u>\$2,112,225</u>	<u>\$44,987,333</u>

As of year end, the weighted average maturity of the investments in the LAIF investment pool is approximately 212 days. The weighted average maturity of the Investment Trust of California is approximately 0.81 years.

C. Credit Risk

Credit risk is the risk of failure of an issuer of an investment in fulfilling its obligation to the holder of the investment. Presented below is the minimum rating required by the California Government Code or the Authority's investment policy and the actual rating by Standard and Poors as of June 30, 2008 for each investment type:

	Ratings at year end	
	Exempt from Disclosure	Aaa
Local Agency Investment Fund	\$1,596,825	
U.S. Agency Obligations		\$2,112,225
Guaranteed Investment Agreement	40,383,799	
Investment Trust of California	773,106	
Money Market Fund	<u>4,127</u>	
Total	<u>\$42,757,857</u>	<u>\$2,112,225</u>

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

NOTE 2 – CASH AND INVESTMENTS (Continued)

E. Local Agency Investment Fund

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

F. Investment Trust of California

Starting in February 2005, a new investment option became available for California local governments and public agencies—Investment Trust of California (CalTRUST), a joint powers authority established by a number of cities and counties in the State. Its purpose is to reduce duplication, achieve economies of scale and carry out coherent and consolidated investment strategies through shares in CalTRUST. The Authority is a voluntary participant in CalTRUST and intends to use CalTRUST as a short-term and liquid investment to augment LAIF.

G. Guaranteed Investment Contract

Net proceeds from the Pass-Through Obligations have been invested in a Guaranteed Investment Contract (Contract) issued by the Forward Purchaser (Forward Purchaser) discussed in Note 4; these proceeds may only be used for the Homeownership Lease Purchase Program and therefore are excluded from operating cash for purposes of cash flows. The Contract bears interest at 2.36% annually.

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

NOTE 4 – HOMEOWNERSHIP LEASE PURCHASE PROGRAM (Continued)

Lenders provide initial mortgage loan funds. These mortgages are sold to the master servicer. The master servicer accumulates these mortgages and is to exchange conforming loans with FHLMC for insured Collateralized Mortgage Obligations. Conforming loans that exceed Freddie Mac limits are insured by CaHFAC and are to be purchased by the Forward Purchaser.

The lease servicer collects lease payments, manages the properties, pays property taxes and other costs of home ownership and remits the net amount of the lease payments to the master servicer. The master servicer remits available funds to the trustee for the debt service on the Pass-Through Obligations.

The Forward Purchaser is a major international bank that is responsible for ensuring the trustee has sufficient funds to make all principal and interest payments on the Pass-Through Obligations, and for purchasing these Obligations as discussed below. The Forward Purchaser has also issued a Guaranteed Investment Agreement covering all unspent proceeds of the Pass-Through Obligations.

Homes owned by Cal-MAC under the Program must be covered by home warranties, homeowners insurance, flood insurance, and earthquake insurance if available. The Program has also purchased business interruption insurance against payment defaults by lessees.

The Authority is not responsible for collection of lease revenues, payment of recurring ownership costs including mortgages, taxes, etc. These transactions are the responsibility of the lease servicer. To the extent that lease-purchasers are delinquent in rent, the Trustee advances the amount of such delinquencies; at June 30, 2008, there were no advances.

Homes purchased under the Program are carried at original cost since the Authority acts as their custodian during the Lease-Purchase period. Purchase mortgage obligations, which provide 100% of the financing of the costs of these homes, are maintained at their original value since the Authority is not responsible for making repayments on these obligations.

Except as noted below, security for the Pass-Through Obligations is limited to amounts received from the lessees and, if necessary, from the Forward Purchaser. Pass-Through Obligations are due July 1, 2008, but are subject to mandatory redemption when title to a home covered by the Program is transferred to the program participant under the terms of the lease purchase agreement.

Interest rates on Pass-Through Obligations are set weekly, and were 5.20% at June 30, 2008. Pass-Through Obligations may be tendered for redemption at any time; the Forward Purchaser is responsible for purchasing at par any that are not resold on the open market. During fiscal 2007-2008, \$1,585,000 of the Pass-Through Obligations were repaid.

B. *Unamortized Issuance Costs*

As required by generally accepted accounting principles applicable to proprietary funds, the costs of issuing the Pass-Through Obligations have been capitalized and are being amortized over the sixty-four month life of the Obligations.

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

NOTE 5 – RESOLUTION OF THE INTERNAL REVENUE SERVICE INQUIRY

In July 2006, the Internal Revenue Service IRS commenced an examination of the \$53,845,000 Variable Rate Lease Revenue Pass-Through Obligations (Lease Purchase Program) 2003 Series A, alleging that the Forward Purchaser (Societe Generale) made improper payments out of arbitrage investment income from the proceeds of the Obligations. The IRS subsequently came to the conclusion that absent an alternative settlement arrangement, the interest on the Obligations should be taxable to investors in the Obligations.

In order to resolve this matter on behalf of investors, the Authority negotiated with the IRS and arrived at a settlement as described in a closing agreement dated February 21, 2008. The agreement calls for a payment to the IRS in the amount of \$167,202.00. The Authority made this payment in January 2008 out of untaxed capital gains from the sale of homes vacated by lessees under this program. Management believes that this settlement will not have any significant adverse impact on the Authority's operation and financial position. The settlement is final and conclusive.

The Pass-Through Obligations were redeemed in full on July 1, 2008.

NOTE 6 – WINDEMERE RANCH COMMUNITY FACILITIES DISTRICT FINANCING

On June 25, 2004, the Authority issued \$30,000,000 in principal amount of Community Facilities District No. 2004-02 (CFD) Bonds to fund infrastructure improvements as part of the development of residential housing in the Windemere Ranch Development Area of Southern Contra Costa County.

The CFD Bonds are repayable out of special assessments on the parcels in the District, and are secured by liens on each parcel. The Authority has no liability for the repayment of the District's assessment debt. Accordingly, the Authority has not recorded this debt in its financial statements.

At June 30, 2007, the debt has been paid off by issuing a new debt in June 26, 2007. The Authority issued \$158,105,000 in principal amount of Revenue Bond Series 2007-A and Revenue Bond Subordinate Series 2007-B. The Authority has no liability for the repayment of the Revenue bond. Accordingly, the Authority has not recorded this debt in its financial statements.